

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.**ACCESS SERVICE
TARIFF F.C.C. No. 5****TRANSMITTAL NO. 707
APRIL 2, 1996****VOLUME 1: DESCRIPTION AND JUSTIFICATION**

Defines the purpose of the filing, describes the rate structure of the access services and summarizes results.

VOLUME 1-2: TARIFF REVIEW PLAN**VOLUME 2: DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENTS**

Provides a projection of the companies' interstate investments, expenses, revenues and taxes for the past year cost of service study and test year.

VOLUME 3: DEVELOPMENT OF BASELINE DEMAND AND REVENUES

Provides the development of the demand quantities and revenues for the test year at current rates.

VOLUME 4: COMMON LINE RATE DEVELOPMENT

Describes and documents the procedures used to develop End User Subscriber Line Charges, the National Average Carrier Common Line charges and Long Term Support.

VOLUME 5: TRAFFIC SENSITIVE RATE DEVELOPMENT

Describes and documents the procedures to develop recurring and non-recurring rate levels for Switched Access and Special Access services. It also describes the procedures used to develop miscellaneous charges for additional engineering, maintenance and testing of these services.

Net-Trans Account ('000s)
(For Illustrative Purposes Only)

	<u>Pacific</u> <u>(a)</u>	<u>GTEC ther LECs</u> <u>(b)</u>	<u>(c)</u>	<u>IECs</u> <u>(d)</u>	<u>Cellular</u> <u>(e)</u>	<u>Total</u> <u>(f)</u>
Total Billing Base	\$5,000	\$1,000	\$600	\$2,300	\$3,600	\$12,500
Access Revenue	\$600	\$100				\$700
Basic Residential Revenues	(\$1,300)	(\$662)				(\$1,962)
Access Charges Paid				(\$600)	(\$305)	(\$905)
Net-Trans Revenue	\$4,300	\$438	\$600	\$1,700	\$3,295	\$10,333
Total Funding Requirement						\$672
Carrier Surcharge Rate						6.50%
Contributions to the High Cost Voucher Fund	\$280	\$28	\$39	\$111	\$214	\$672

Net-Trans Account (millions)
(For Illustrative Purposes Only)

	<u>Pacific</u> <u>(a)</u>	<u>GTEC</u> <u>(b)</u>	<u>Other LECs</u> <u>(c)</u>	<u>IECs</u> <u>(d)</u>	<u>Cellular</u> <u>(e)</u>	<u>Total</u> <u>(f)</u>
Total Billing Base	\$5,000	\$1,000	\$600	\$2,300	\$3,600	\$12,500
Access Revenue	\$600	\$100	\$10			\$710
Basic Residential Revenues	(\$1,300)	(\$662)	(\$10)			(\$1,972)
Access Charges Paid				(\$600)	(\$305)	(\$905)
Net-Trans Revenue	\$4,300	\$438	\$600	\$1,700	\$3,295	\$10,333
Total Funding Requirement						\$672
Carrier Surcharge Rate						6.50%
Contributions to the High Cost Voucher Fund	\$280	\$28	\$39	\$111	\$214	\$672

PACIFIC BELL NET INCOME*
CATEGORY I AND II SERVICES

CHAPTER 4

DRA'S RECOMMENDATION OF OTHER UNIVERSAL SERVICE ISSUES

1. Below, DRA presents its responses to the universal service issues found in the Administrative Law Judge's Ruling of February 21, 1996.

I. [Q.1] Will rate discounts on schools, libraries, and rural health care providers, as mandated by the Telecommunications Act of 1996, pose any rate design problems? If so, how can those rate design issues be resolved?

2. The Telecommunications Act of 1996 (Act) has set a rate discount standard for rural health care providers that is different from the standard set for schools and libraries. According to the Act, upon request, rural, public or nonprofit health care providers¹ shall receive telecommunications services "necessary for the provision of health care services ... at rates that are reasonably comparable to rates charged for similar services in urban areas in that State."² Therefore, DRA proposes that the subsidy for rural health care providers be added to the High Cost Voucher Fund. How the term "reasonably comparable" rates is defined remains to be seen -- the Public Utilities Commission or the Legislature could determine that they may be something less than a full High Cost Voucher Fund subsidy level. Carriers are entitled to an amount equal to the difference between the rates for rural health care providers and the rates for similar services provided to other customers in comparable rural areas, "treated as a service obligation as a

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1. According to the Act, health care providers means: (i) post-secondary educational institutions offering health care instruction, teaching hospitals, and medical schools; (ii) community health centers or health centers providing health care to migrants; (iii) local health departments or agencies; (iv) community mental health centers; (v) not-for-profit hospitals; (vi) rural health clinics; and (vii) consortia of health care providers consisting of one or more entities described in clauses (i) through (vi). Act at sec. 254(h)(5)(B).
2. Act at sec. 254(h)(1)(A).

part of its obligation to participate in the mechanisms to preserve and advance universal service."³ California has over 4300 licensed health care facilities, many of them in rural areas.⁴ DRA does not believe that administration of the rural health care provider subsidy through the High Cost Voucher Fund should pose any significant rate design problems. In anticipation of rate deaveraging, DRA proposes that the TSLRIC of 1MB of the lowest cost density zone in the proxy cost model adopted by the Commission be used for the establishment of basic service rate for the rural health care providers. The effective rate for a rural health care provider should not exceed the TSLRIC of the lowest cost density zone less \$6.00 for the EUCL. The rural health care provider subsidy, the difference between what carriers normally charge and the rate limit established by the Commission, should be provided to carriers providing service to rural health care providers through the High Cost Voucher Fund.

3. Schools and libraries can request from carriers any services that fall within a special definition⁵ of universal service "at rates less than the amounts charged for similar services to other parties."⁶ Rate discounts will be set by "the States, with respect to intrastate services," with the discount being set at a level "appropriate and necessary to ensure affordable access to and use of such services by such entities."⁷ Carriers will have an option to recover the costs of the school and library discount: the discount can be treated as an offset to its obligation to contribute to universal service funding mechanisms, or the carrier can receive reimbursement.

3. Id.

4. "California Statistical Abstract, 1995," State of California (1995) at 68.

5. The definition of universal service may include additional services for schools, libraries and health care providers. Act at sec. 254(c)(3).

6. Act at sec. 254 (h)(1)((B)).

7. Id.

California, whether through the Public Utilities Commission or the Legislature, will have to determine the school and library discount rate. California has approximately 1000 libraries, excluding school libraries, and approximately 1000 public school districts, with about 7800 public schools and 4100 private schools.⁸ For the ease of administration, instead of establishing a whole new discount mechanism, DRA proposes that the rural health care provider subsidy mechanism be applied to schools and libraries -- using the TSLRIC of the lowest cost density zone in the proxy cost model adopted by the Commission as a reference. This rate will provide schools and libraries with a form of rate discount that will ensure affordable access and use of universal service.

II. [Q.2] What other impacts does this Commission need to consider in the universal service proceeding as a result of the passage of the Telecommunications Act of 1996?

4. According to the Telecommunications Act, the Federal Communications Commission shall establish competitively neutral rules to enhance access to advanced telecommunications and information services for schools, health care providers and libraries.⁹ The Public Utilities Commission will ultimately have to incorporate these rules.

III. [Q.3] How should the universal service subsidy be changed to reflect developing technologies, such as wireless, which may change the method of providing telephone service?

5. For the time being, the universal service subsidy mechanism should not be changed to reflect developing technologies, such as wireless. Until wireless carriers are willing to offer universal service, they are outside the scope of the universal service subsidy mechanism. In the Universal

8. "California Statistical Abstract, 1995," State of California (1995) at 81 and 79.

9. Act at sec. 254(h)(2).

Service OIR/OII, the Commission proposed a triennial periodic review of the elements of universal service.¹⁰ The Commission will have an opportunity at the next universal service triennial periodic review to review this issue.

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10. D.95-07-050, Appendix A, Rule 4.C

APPENDIX A

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
ANGELA YOUNG**

Q.1 Please state your name and business address.

A.1 My name is Angela Young, and my business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst.

Q.3 Briefly describe your educational and professional experience.

A.3 I graduated from the California State University, San Francisco with a Bachelor of Arts degree, Summa Cum Laude, in Accounting. In addition to my major study, I also completed nineteen semester units in Logic which was 1 semester unit short of earning a minor degree in philosophy. I received my Master in Business Administration with finance emphasis from the same school in 1985. I passed the Certified Public Accountants examination. My major assignments at this branch include the Alternative Regulatory Framework for AT&T, the Implementation Rate Design phase of the Alternative Regulatory Framework for Pacific Bell and GTE, California.

Q.4 What is the purpose of your testimony?

A.4 The purpose of my testimony is to present DRA's recommendations on issues identified in the February 21, 1996 ALJ's Ruling.

Q.5 What is the scope of your responsibility in this proceeding?

A.5 I serve as DRA's Project Manager for this proceeding. I am also sponsoring Chapter 1, and Chapter 3 paragraphs 15 thru 21 and paragraphs 24 thru 52.

Q.6 Does that conclude your testimony?

A.6 Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
ZENAIDA CONWAY**

Q.1 Please state your name and business address.

A.1 My name is Zenaida Conway. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst (PURA) III.

Q.3 Briefly describe your educational and professional experience.

A.3 I have a Master's Degree in Agricultural Economics from the University of the Philippines. I have undertaken and completed all requirements for a Ph.D. in Agricultural and Resource Economics, except for the dissertation, at the University of Hawaii.

I started working for the Commission in June 1990 with DRA's Telecommunications Investigations and Research Branch (now known as Telecommunications Branch A). Since that time, I have conducted investigations and prepared testimony on a variety of cases dealing with the Commission's regulation of AT&T and other interexchange carriers, electric utilities (ECAC proceeding), and dump truck carriers in California. I have also conducted analyses in support of DRA's testimony in the Commission's long-run marginal cost proceeding for the gas industry and was involved in DRA's investigation on Canadian gas procurement by Pacific Gas and Electric Company. I have been participating in DRA's project teams involved in the major telecommunications proceedings such as Local Competition, OAND, and Universal Service in the past two years, providing staff support and analysis on a variety of issues.

- Q.4 What is the purpose of your testimony?
- A.4 The purpose of my testimony is to present DRA's recommendations on issues identified in the February 21, 1996 ALJ Ruling.
- Q.5 What is the scope of your responsibility in this proceeding?
- A.5 Under the general guidance of the Project Manager, Angela Young, I am responsible for DRA's position and recommendations pertaining to implicit subsidies as discussed in Chapter 3, Section X, of DRA's report, which is responsive to Question 10 in the ALJ Ruling.
- Q.6 Does that conclude your testimony?
- A.6 Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
HASSAN M. MIRZA**

- Q.1. Please state your name and business address.
- A.1. My name is Hassan M. Mirza. My business address is 505 Van Ness Avenue, San Francisco, CA, 94012.
- Q.2. By whom are you employed and in what capacity?
- A.2. I am employed by the California Public Utilities Commission as a Senior Utilities Engineer in the Telecommunications Branch "B" of DRA.
- Q.3. Would you please summarize your educational and professional background?
- A.3. I received a Bachelor of Science Degree in Industrial Engineering from the University of California, Berkeley in 1974. In addition, I have earned a Masters in Business Administration Degree from San Francisco State University in January 1981. I joined the Commission in 1974 and since that time, except for one year, I have prepared or assisted others in preparing estimates of various portions of the Results of Operations report for several major utilities in general rate cases. These utilities are: Pacific Bell (Pacific), formerly The Pacific Telephone and Telegraph Company (A.55214, A.58223, A.83-01-022, and A.85-01-034); Contel of California (Contel), formerly Continental Telephone Company of California (A.53376 and A.59936); Sierra Pacific Power Company (A.57076), and GTE California (GTEC), formerly General Telephone Company of California (A.59132, A.60340, and A.87-01-022). In addition, I was the DRA Project Manager for the GTEC Voice Messaging Service Application (A.90-07-048); the Commission's 1990 AB 475 Report to the California Legislature; and Pacific, GTEC, and Contel Applications (A.90-11-011, A.91-01-039, and A.90-12-065, respectively) for Approval to Offer Custom Calling Features. Finally, I was DRA Co-Project Manager for GTEC & Contel Application for Approval of the Merger, Phase II and the Project

Manager for the 1995 New Regulatory Framework Review,
Phase I (I.95-05-047).

Q.4. Have you ever testified before this Commission?

A.4. Yes, I have testified as an expert witness in many of the
previously identified proceedings.

Q.5. What is the purpose of your testimony in this proceeding?

A.5. The purpose of my testimony is to present DRA's
recommendations on certain issues identified in the
February 21, 1996 ALJ's ruling including DRA's evaluation
of the two models being proposed by Pacific Bell and the
Coalition (AT&T, MCI, etc.)

Q.6. What is the scope of your responsibility in this
proceeding?

A.6. Under the general guidance of the Project Manager, Angela
Young, I am responsible for DRA's position and
recommendations pertaining to the proxy cost model as
discussed in Chapter 2, and paragraphs 1 thru 14 and
paragraphs 22 thru 23 in Chapter 3.

Q.7. Does this conclude your testimony?

A.7. Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
TRUMAN L. BURNS**

Q.1 Please state your name and business address.

A.1 My name is Truman L. Burns. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst III.

Q.3 Briefly describe your pertinent educational and professional experience.

A.3 I received a B.A. in Political Science and English and a M.A. in Political Science, State Politics and Policy Specialization from the University of California, Davis. I received a J.D. from the University of San Francisco, and am a member of the California Bar. I joined the CPUC's Special Economics Projects Branch in 1986. During my employment with the CPUC, I have performed various tasks, and have spent most of my time on electric utility regulation. With regard to the telecommunications industry, I worked on DRA's prior comments on universal service in this proceeding, DRA's comments on local competition and in 1994-1995 I represented DRA as staff counsel in the cellular bundling proceeding, I.88-11-040.

Q.4 What is the purpose of your testimony?

A.4 The purpose of my testimony is to present DRA's recommendations on universal service issues identified in the February 21, 1996 ALJ's Ruling.

Q.5 What is the scope of your responsibility in this proceeding?

A.5 Under the general guidance of the Project Manager, Angela Young, I am responsible for DRA's position and recommendations in Chapter 4, on universal service issues identified in the February 21, 1996 ALJ's Ruling.

A.6 Does that conclude your testimony?

A.6 Yes, at this time.

Exhibit : _____
Commissioner : Comm. Knight
Adm. Law Judge: J. Wong

CALIFORNIA PUBLIC UTILITIES COMMISSION
UNIVERSAL SERVICE PROCEEDING

R.95-01-020
I.95-01-021

Reply Report of
The Division of Ratepayer Advocates
Regarding
the Cost Proxy Models and
Other Universal Service Issues

San Francisco, California
April 24, 1996

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CHAPTER 1

SUMMARY

1. Pursuant to Administrative Law Judge (ALJ) Wong's April 3, 1996 Ruling, DRA hereby submits its reply report. DRA's reply report is limited to certain issues raised by other parties in their opening testimony, and provides the incremental effects for four recommended modifications to the Cost Proxy Model (CPM) that were discussed in DRA's opening report.

2. Chapter 1 and Chapter 3 of this reply report are sponsored by the Project Manager, Angela Young. In Chapter 3, DRA will discuss the development of expense estimates for the Hatfield Proxy Model (HPM) and the subsidies for small and mid-size local exchange carriers (LECs). Chapter 2 is sponsored by Hassan Mirza. In that chapter, DRA will provide the incremental changes to the CPM results based on four recommended modifications that were discussed in DRA's opening report. Chapter 4 is sponsored by Zenaida Conway. In that chapter, DRA will address certain issues relating to implicit subsidies.

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CHAPTER 2

MODELS

I. INTRODUCTION

3. Several parties, including DRA, filed opening testimony discussing Pacific's Cost Proxy Model (CPM) and AT&T/MCI's Hatfield Proxy Model.¹ DRA's reply report concerning the models is limited to certain points raised by other parties in their opening testimony. Further, in this reply report, DRA provides the incremental changes for four items that were discussed in its opening report.

II. INCREMENTAL CHANGES

4. On Pages 3-6, and 3-8 and 3-9 of DRA's opening report², DRA discussed four changes the Commission should adopt for the CPM model. These four changes are as follows:

- o Use of two copper pairs for buried drop plant;
- o Use of "design" utilization factor for feeder plant and pair gain systems;
- o Use of fiber plant for feeder plant greater than 12,000 feet; and
- o Use of switch costs that reflect higher vendor's discount.

Table 1 shows the incremental impact by density zones and statewide for the above mentioned four changes.

1. Besides DRA, Pacific and AT&T/MCI also provided opening testimony discussing both models in great detail. Other parties also provided comments relating to the two models.

2. DRA's opening testimony is entitled "OPENING REPORT OF THE DIVISION OF RATEPAYER ADVOCATES REGARDING THE COST PROXY MODELS AND OTHER ISSUES IN THE UNIVERSAL SERVICE PROCEEDING."

A. Two Copper Pairs

5. As discussed in paragraph 9 of Chapter 3 of DRA's opening report, if one spreads the drop cost for buried plant (along with underground plant) over two copper pairs instead of one copper pair, this will reduce the subsidy level on a statewide basis by \$3.308 million, or 2.3%, per month. The annual subsidy reduction is estimated to be about \$39.696 million per year.

B. Design Utilization

6. As discussed in paragraph 12 of Chapter 3 of DRA's opening report, using the design utilization factor, instead of actual utilization factor, for feeder and pair gain systems reduces the subsidy level on a statewide basis by \$7.560 million, or 5.3%, per month. The annual subsidy reduction is estimated to be about \$90.720 million. DRA recognizes that there may be an off-setting increase in certain expenses such as maintenance expenses may increase; however, Pacific has not been able to list these expenses, neither support nor document this increase.

C. Fiber Feeder Cut-off

7. As discussed in paragraph 13 of Chapter 3 of DRA's opening report, utilizing the premise that CPM should reflect fiber in feeder plant greater than 12,000 feet reduces the subsidy level on a statewide basis by \$11.967 million, or 8.3%, per month. The annual subsidy reduction on a statewide basis for this revision is estimated to be about \$143.604 million. DRA recognizes that there may be an off-setting increase in certain investment and expenses but Pacific has not been able to list these expenses and investment, neither support nor document this increase.

D. Switching Cost

8. As discussed in paragraph 14 of Chapter 3 of DRA's opening report, utilizing the premise that CPM should reflect the maximum possible discount for switching costs reduces the subsidy level on a statewide basis by \$15.208 million, or 10.6%, per month. The annual subsidy reduction is estimated to be about \$182.496 million.

9. Pacific's witness, Richard L. Scholl, on page 16 of his testimony,³ discussed the "life cycle price variations" for switching equipment. Mr. Scholl listed five phases for the lifecycle price variations for switching equipment. As listed on pages 16 and 17 of Mr. Scholl's testimony, the five phases of lifecycle are as follows:

- o Premium prices for products just introduced.
- o Competitive, but still relatively high, prices for the still new products.
- o Significant price discount for products that are now standard in the market. Pacific's current vendor prices reflect agreements with the two vendors that were signed in 1992.
- o Price increases after the expiration of the current agreements. This price increase is to reflect relatively low volume of purchases just to meet growth demands.
- o Further price increases as old technology is phased out.

10. The third phase of the lifecycle is the point at which Pacific was able to obtain the best prices for a digital

3. "Testimony of R. L. Scholl-Universal Service Proxy Cost Models, dated April 17, 1996.

switches. DRA examined vendor's prices for DMS-100 and 5-ESS switches in this phase and therefore, adjusted the switching costs in the CPM to reflect the maximum possible discounts for the purchase of the switches. However, DRA does not agree with Pacific that any changes in the prices for digital switches in the future (Phase IV) would have to be higher. In any event, any estimates made today of prices for digital switches for future contract would be speculative at best.

11. In order to recognize some DMS-100 and 5-ESS switches that were purchased prior to the 1992 contracts, DRA has requested from Pacific information on how many residence access lines were connected to digital switches purchased before the 1992 contracts. DRA also requested data on how many residence access lines are to be connected with the new contract. Pacific has not provided the requested information. If Pacific is able to provide further information along with supporting documents, then DRA might reconsider its recommended annual subsidy reduction of \$182.496 million.

E. Total Incremental Changes

12. DRA recommends that the Commission adopt the four changes in the CPM as described above. These four changes on a statewide basis would reduce the annual subsidy level by about \$455.516 million, or about 25%, from Pacific's CPM estimate of \$1,720.176 million.

III. OTHER CHANGES

13. DRA is examining two changes or adjustments that were recommended by Dr. Lee L. Selwyn on behalf of The California Telecommunications Coalition. The two adjustments are for revised ("A" and "B") costs for copper cable, and the sharing of poles with other utilities other than with Pacific Gas & Electric Company.

14. On page 68 of his testimony⁴, Dr. Selwyn cites in a footnote 91 that "Pacific has recently indicated that it is substantially revising the "A" and "B" loop cost inputs to the CPM." DRA is not aware of this change that supposedly was made by Pacific on April 13, 1996.

15. DRA is still evaluating the "A" and "B" copper cable cost changes, the sharing of poles with other non-electrical utilities, switching costs, design utilization, etc. Based upon findings of its evaluation, DRA may submit supplemental testimony addressing any further adjustments to the CPM.

16. On page 87 of his testimony⁵, Dr. Selwyn cites that Pacific used "economic lives" in the CPM model. Dr. Selwyn stated that "at a minimum, the Company should be required to to use CPUC-prescribed depreciation lives and rates." DRA agrees with Dr. Selwyn that CPM should reflect CPUC approved depreciation lives and CPUC approved depreciation rates. CPUC has always prescribed depreciation lives for intrastate jurisdiction with staff review, public comment and public hearing process. CPUC uses the Straight-Line Remaining Life method to set the depreciation rates and does not allow the use of Equal Life Group and reserve deficiency amortizations. Therefore, DRA recommends that CPM be adjusted to reflect CPUC-prescribed rates, instead of Pacific's economic lives.

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4. "Testimony and Exhibit of Lee L. Selwyn on behalf of The California Telecommunications Coalition," dated April 17, 1996.

5. Ibid, page 87.

CHAPTER 3
EXPENSE ESTIMATES FOR THE HPM
AND
SUBSIDIES FOR SMALL AND MID-SIZE LECs

I. EXPENSE ESTIMATES FOR THE HPM

17. DRA essentially agrees with Pacific's statement that the HPM "includes uncollectables using a cost factor that will inappropriately calculate large uncollectables in high cost areas." ⁶ The HPM assumes an uncollectible factor of 1.4%. The amount of uncollectibles is calculated by applying this percentage to the total volume sensitive cost of the basic service. (Table 2, Attachments) This approach is generally acceptable. However, under the Commission's subsidy mechanism proposal, the recovery of the cost of basic service in the high cost areas would have two sources: 1) the high cost voucher fund and 2) end-users through their monthly basic service rates. DRA disagrees with the HPM's implication that the risk of uncollectibles is the same for the high cost voucher fund as it is for end-users. The HPM should assign appropriate risk factors of uncollectibles for these two different sources of revenue.

18. Furthermore, in review of the HPM's development of expense estimates, DRA notes that the HPM treated structure capital costs⁷ as shared costs and network capital costs as volume-sensitive direct costs. However, the general support cost, which is intended as a direct cost, is calculated by applying a factor to the sum of the structure and network capital costs. (Table 2.) Thus, the general support cost as developed by the HPM is not wholly a direct cost but rather a hybrid of shared and direct costs. DRA believes that the HPM should be adjusted so that only the direct portion of the general support costs are included as direct costs and the shared portion of the

6. Testimony of R.L. Scholl at page 12.

7. Testimony of Robert A. Mercer at page 20.

general support costs are included as shared costs of basic service.

II. SMALL LECS AND MID-SIZE LECS

19. In their testimony, Roseville Telephone Company⁸ and 9 small independent LECS⁹ assert that subsidies for the support of universal service for their service areas should be based on their actual respective costs. These companies' estimated actual cost information is presently before the Commission in connection with their general rate cases. DRA disagrees with their proposal. The Commission has stated that it intends to rely on the proxy cost model results to set the amount of subsidies in high cost areas.¹⁰ The proxy cost model should develop the cost of basic service based on TSLRIC.¹¹ Furthermore, the proxy cost model should be independent of a particular company's costs.¹² The subsidies that these 10 LECS propose are LEC-specific and based on embedded costs and embedded technology. Therefore, their proposals are inconsistent with the Commission's stated methodology and should not be adopted.

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8. Opening Testimony of Greg R. Gierczak at page 3.

9. Opening Testimony of David Tutt on behalf of Calaveras Telephone Company, California-Oregon Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., and Winterhaven Telephone Company at page 2.

10. D.95-12-021 at page 5.

11. Universal Service OIR/OII, proposed rule 6.A.3.

12. Id. at page 7.